As to the real purpose of the above issues, there are several explanations. Most obviously, they were intended to serve, according to the lingo of the advertisers, as "window-dressing." That is, the administration had the political bad luck to have a financial crisis occur while the Republican party was in power, and, while a high tariff existed, contrary to all promises when asking for support in previous campaigns, that the party and the tariff would insure industrial prosperity. Seeing that the banks must very soon return to normal conditions, by their own means, the politicians at Washington made a flashy bid for the ignorant vote, on the ground that the bond issues would increase the circulation, and restore confidence. The administration impetuously attempted the impossible, either through ignorance, or too much confidence in the effects of a "bluff."

But more than this, the recent bond issues seem to indicate a panic in official circles. It is inconceivable that the plan could have been recommended by any experienced banker, or by the secretary himself. There is good reason to believe that it was a policy conceived only in the fertile mind of some high official who had no knowledge of banking. And it is not hard to guess that it was solely a political measure, intended for popular consumption. The sudden falling off in the revenues must have created consternation at the possibility of being unable to meet warrants on the treasury with a diminishing income, when the large free fund was practically locked up in the banks. Such an event would have spelled political ruin in the coming presidential election. Certainly this transaction is the most unsatisfactory financial performance since the silver legislation; and the evident desire to escape from the blunder is disclosed in the reduction of the allotments of the 3 per cents. to $15,000,000, and a large reduction in the allotments of the Panama bonds.

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THE WORKING OF RESTRICTED CREDIT

Taking it to be true that the commercial crisis is a phenomenon of the contraction of credit, it nevertheless remains to inquire as to the sense in which this is true. Is it either primarily or exclusively a contraction of bank credit, or rather a contraction of credit

generally? Or is it merely a contraction in some other specific kind or level of credit? May it not be a process of restriction confined to what may be termed voluntary credit, as over against a remaining volume of credit which is refusing to contract and which is even expanding?

It appears, indeed, to be in need of recognition that although the acute stage of crisis is purely a matter of credit contraction, it does not follow—and it is not true—that the aggregate volume of credit is diminishing; the fact appears to be that the process of restriction is proceeding only in certain departments of credit or upon certain credit levels, while credit is elsewhere manifesting precisely the contrary tendency. Side by side with the diminution of bank credit there is taking place an enforced and inevitable expansion of credit relations between producers and consumers, producers and middlemen, and between middlemen and consumers.

At this non-banking level of credit must be sought, in fact, the explanation for the more serious of the ultimate difficulties characteristic of the crisis phenomenon. So far, indeed, as crisis confines itself to a mere contraction of bank credit, so far, even as its effects extend no farther than a general reappraisal of goods in terms of gold—a readjustment of prices—nothing is taking place of essential significance to the interests of society as a whole. It is only as the financial strain somehow translates itself into an interference with the processes of production and consumption that the real and essential and ultimate harm is disclosed.

What, then, is the method of this translation, the rationale of its working? Why are manufacturers closing their mills and discharging employees?

Industrial depression has sometimes been interpreted purely in terms of disturbed production reacting upon consumption, sometimes also in terms of reduced consumption reacting to limit production.

Space must fail here to do justice to this second view—a view containing much truth and truth of the greatest significance. Some part of the difficulty does really lie in the fact that, scared or depressed by the purely financial commotion, consumers are refraining from consuming. In this aspect of the problem, nothing appears to be the trouble excepting the sheer indisposition to consume, a temporary and extreme economy, an overmarked prefer-

ence for postponed consumption as against present consumption. Acting under similar influences, retailers also are doubtless manifesting a similar psychology; they are allowing their stocks to run low; temporarily they are adopting the policy of living from hand to mouth. And as the mere restatement of this fact, orders are ceasing to come to the wholesaler, and employment is becoming scant at the sources of production.

Surely the problem is extremely complex, and surely a full treatment of it must allow for the bearing of such influences as first express themselves in a reduced consumption, and only so react upon production. But the concern of the present analysis is solely with the influences first impinging upon production, and only secondarily affecting consumption.

How then does the panic work out to tie up production? In some small part, doubtless, by uncovering insolvencies not due to the panic, but only disclosed by it; in some part, also, the panic causes insolvencies through bringing about a fall in the prices of securities or of stocks of goods, or, possibly, through necessitating an imperative call for the immediate liquidation of credit relations that cannot be liquidated immediately.

But in the main the "slowing up of business," the restriction of output, is not a phenomenon of insolvency; in the main, also, even where it is an insolvency phenomenon, it is merely as another effect of the very causal influences which it is the purpose of the present paper to analyze. Restriction of production is mostly due to a disastrous redistribution in society of the function—or the burden—of supplying credit. For, as has already been noted, the immediate or early effect of crisis is not to diminish credit. Credit contraction is really a matter of very slow accomplishment; the stringency period is merely a period of the redistribution of the function of carrying credit.

Appeal to the facts of the business world should suffice to make this clear. In the early days of last November, a small wholesaler reported to the present writer that his collections had in two weeks shrunk from about $1,000 a day to $500 a day, while his raw materials and other outlays were running at about $650 per day. Shipments were still running at about their usual mark of $1,500. Two weeks later his report was to the effect that collections had fallen to about $250, sales to about $600, and that customers generally were sending in their notes and asking time. The banks

however, were refusing to discount the notes. In essentials the case is typical.

What does it all mean as seen from the point of view of the entrepreneur and of the productive process? Simply that there is as yet taking place no contraction of credit, but merely that the manufacturer or jobber—either of whom is for the most part an intermediary in production—is having to carry the credit; the banks have abrogated their function of credit issue. Whether this is necessarily done does not concern the present analysis—it is done. What shall the wholesaler do—press his customers? But this is bad business in the long computation, and, besides, is likely to be ineffective. Refuse them further goods? But this is inexpedient as long as he has still the goods to sell, and as long as the customers are actually responsible. And note, also, that the customer finds himself in a precisely similar situation with regard to his own trade; he has to wait on his customers. *On this level of business activity* credit is successfully resisting contraction and is effectively pressing for expansion.

But on the basis of having to carry his customers—not merely on accrued accounts but for further shipments—the wholesaler or the manufacturer must shortly meet the necessity of curtailing or abandoning production. And note that all this must hold true, even though the banks do not also move toward cutting down the line of credit usually granted. In any case, the pressure upon the wholesaler or the manufacturer for credit is an increasing pressure. Credit *on this level* is temporarily expanding. But this is an impossible process if attempt is made to carry it appreciably far, concurrently with the refusal of the banks to grant an increasing accommodation. Producing and distributing are therefore subjected to paralysis.

And it does not greatly matter, for the purpose, how unquestionably solvent the manufacturer or the jobber may be, or how great claim he has to credit by title of financial strength. The difficulty is not that the financial strength is not adequate for all purposes of protection to the bank by way of indorsement and guarantee. The banks refuse the credit; the manufacturer and jobber have imposed upon them this function. But manufacturing and mercantile businesses are at the farthest possible remove from the ability to stand as ultimate purveyors of credit. Banks are properly organized to do the thing, because they have the machin-

ery for the making one man's deferred-payment promise into immediate purchasing power for the promises. This is, in fact, the ultimate significance of the deposit-credit system. But the middlemen in production or in commerce have no devices or adjustments appropriate to the problem. If credit organizations cease to perform their functions and attempt to shoulder the burden off upon other lines of business, these others must in their turn cease to perform their appropriate functions, simply because they cannot perform both their own functions and those of the banks.

All this, however, is merely another way of enforcing the established doctrine that, in times of especial credit pressure, it is the business of the banks to be especially liberal of credit. If, then, the hard and fast reserve limitation interferes, it should forthwith be repealed; if to fulfil their responsibilities the banks must somehow get together for joint action, they should be authorized—or compelled—to undertake the necessary organization; if the custom of depositing reserves with other banks works out in fair weather as a stimulus to speculative activity in reserve centers, and, in bad weather, results in an automatic cancellation of reserve resources, this double counting of reserves should promptly be outlawed. By one device or another the banks should be held to the responsibilities of their function—the supplying at all times, and especially in times of stress, of all that credit, in guarantee of which any applicant is able to offer the adequate security and for which he stands ready to pay the ruling rates of interest.

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WASHINGTON NOTES

NEW BOND ISSUES
TREASURY OPERATIONS
CURRENCY REFORM
NATIONAL COUNCIL OF COMMERCE
RECIPROCITY WITH GERMANY

During the past month a remarkable financial proposal on the part of the treasury has been projected and carried to a conclusion within an unprecedentedly brief period. In announcing his intention to sell $50,000,000 of Panama bonds and $100,000,000 of 3-per-cent. certificates Secretary Cortelyou on November 18 prac-